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RUEHHK/AMCONSUL HONG KONG PRIORITY 3829
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SENSITIVE

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SUBJECT: ROKG SUPPLEMENTAL BUDGET STIMULUS BILL (3 PERCENT OF GDP) SUBMITTED TO NATIONAL ASSEMBLY

11. (U) This cable is sensitive but unclassified and not/not intended for internet distribution.

12. (SBU) Summary: On March 24, the ROKG approved a 28.9 trillion won (USD 21.4 billion) supplemental budget, in a move that had been signaled for weeks. The budget is equivalent to roughly 3 percent of (estimated) GDP, the largest since the Asian Financial Crisis of 1997-98. The Ministry of Strategy and Finance (MOSF) expects that the additional spending, coupled with deregulation and more corporate investment, could lead to a two percentage-point hike in GDP and create 550,000 new (mainly short-term) jobs this year. The budget was submitted on March 30 to the National Assembly, which begins a 30-day extraordinary session on April 1. President Lee's GNP party has a significant majority in the National Assembly, but the opposition Democratic Party has voiced concerns over the supplemental budget. The parties have reportedly agreed to vote on the supplemental budget in a plenary session on April 29. End Summary.

13. (SBU) On March 24, the ROKG approved a 28.9-trillion won (USD 21.4 billion) supplemental budget, in a move that had been signaled for weeks. The supplemental budget consists of two parts: additional spending of 17.7 trillion won (USD 13.1 billion) and 11.2 trillion won (USD 8.3 billion) to make up for shortfalls in tax revenue. The total amount is equivalent to roughly 3 percent of (estimated) GDP and the additional is the largest since the Asian Financial Crisis in 1997-98. The budget is intended to create jobs and boost domestic consumption.

14. (SBU) The Ministry of Strategy and Finance (MOSF) expects that the additional spending, coupled with further deregulation and greater corporate investment, could lead to a two percentage-point hike in GDP and create 550,000 new (short-term as well as permanent) jobs this year. Senior ROKG officials have described the primary purpose of the supplemental as job creation and maintenance. The measure is also intended to provide livelihoods for low-income people through cash grants, consumption coupons, and cheaper loans. MOSF also announced that unemployment benefits will be expanded. Cash-strapped small companies and exporters will also receive support through the supplemental. Provincial economies will also receive support through the measure. Finally, the Administration's future growth engines will also receive support. A breakdown of the spending is contained in sub-paragraphs a-e, below.

a) Creating and maintaining jobs: 3.5 trillion won (USD 2.6 billion):

-- 2.9 trillion won for creating more jobs by expanding internship opportunities for youth.

-- 307 billion won for subsidizing wage payments of employers who do not downsize their workforce (and instead grant leaves of absence and job training).

-- 162 billion won for providing training programs for job seekers.

-- 99.2 billion won for employees who are on leave of absence (40% of their average wage will be paid).

-- 18.2 billion won for employers who reduce shift lengths to maintain jobs (reducing employee hours). The cost would be split evenly among government, business, and labor.

-- 11.1 billion won for subsidizing SMEs to offer higher wages to attract job seekers.

b) SMEs and the self-employed: 4.5 trillion won (USD 3.33 billion):

-- 3.93 trillion won for expanding credit guarantees (including a 1.6 trillion won increase in capital for the Korea Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund) and government financing to help SMEs and the self-employed.

-- 26.1 billion won for supporting new businesses and micro-entrepreneurs.

-- 23.1 billion won for expanding export guarantees to support overseas marketing.

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c) Stabilizing lower-income groups: 4.2 trillion won (USD 3.11 billion):

-- 2.15 trillion won for supporting unemployed households by expanding unemployment payments and providing loans for the unemployed.

-- 660 billion won for consumer coupons, loans, and cash for the lowest-income households and for those not capable of working.

-- 650 billion won to support housing facilities and welfare facilities for lower-income households.

-- 400 billion won for subsidy for lowest-income households.

-- 214 billion won for supporting tuition fees for college students belonging to lower-income households.

-- 157 billion won for supporting unemployed families.

d) Revitalizing regional economies: 3.0 trillion won (USD 2.22 billion):

-- 1.49 trillion won for local government projects by supporting local government bond issuance.

-- 940 billion won for supporting infrastructure projects managed by local governments.

-- 570 billion won for expanding credit guarantees for self-employed.

e) Investing in future growth potential: 2.5 trillion won (USD 1.85 billion):

-- one trillion won for water facility management and development, including a project to rehabilitate four important rivers.

-- 864 billion won for investing in new growth engines such as Research & Development, IT and software.

-- 654 billion won for improving public educational facilities and

for hiring additional support staff.

15. (SBU) The budget bill supplements the 284.5-trillion won regular budget for 2009, raising total ROKG spending to 302.3 trillion (USD 224 billion) or about 31 percent of GDP, up from 284.5 trillion won (USD 210.7 billion) or 29.3 percent of GDP in 2008. This supplemental is one of several stimulus measures undertaken by the ROKG since the onset of the global financial crisis. The 2008 budget was also increased by supplemental spending of 4.5 trillion won (USD 3.33 billion), passed in November 2008. The ROKG also cut taxes by 35.3 trillion won (USD 26.2 billion) or approximately 3.6 percent of GDP. Finally, when passing the 2009 budget in December, the ROKG announced that 11.5 trillion won (USD 8.5 billion) or 1.2 percent of GDP was above strict budgetary requirements and intended as fiscal stimulus (largely dedicated to green growth plans).

16. (SBU) The supplemental will be primarily funded through the sale of government bonds, which is expected to increase ROKG debt to 366.9 trillion won (USD 271.8 billion) or 38.5 percent to GDP. This is still much lower than the OECD average sovereign debt-GDP ratio of 75.4 percent.

17. (SBU) The supplemental budget bill was submitted to the National Assembly on March 30. The legislature begins a 30-day extraordinary session on April 1 and the primary parties have reportedly agreed to vote on the supplemental in a plenary session on April 29. Representative Chung Se-kyun, Chairman of the opposition Democratic Party was quoted by Hangyoreh Newspaper on March 24, "The government plans to inject a huge amount of budget to create more jobs, but looking into the details, the jobs are mostly temporary. The government should inject the money to create sustainable jobs rather than spending money in the civil engineering projects such as reviving the four rivers (public works project)." Representative Park Byung-seok, Policy Chairman of the Democratic Party, also criticized the supplemental budget plan as the "worst in history."

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Some opposition leaders have called for a much smaller stimulus package. On the other hand, the government has strong business support. Senior ROKG officials have predicted that the Democratic Party will resist the bill but ultimately allow it to move forward because it will be politically difficult to try to stop a bill that delivers jobs and other assistance to low-income groups in the current economic environment.

STEPHENS